

February 6, 2023

Via Email: regs.comments@federalreserve.gov

Board of Governors of the Federal Reserve System
Ann E. Misback, Secretary
Attn: Docket No. OP-1793
20th Street and Constitution Avenue NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Comments on Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Docket No. OP-1793)

Dear Ms. Misback,

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a publicly-traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 167 facilities and 259 ATMs, serving 75 communities in Texas and Oklahoma through five separately chartered banks ranging in size from approximately \$480 million to \$9.3 billion, with consolidated assets totaling over \$16 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

This letter responds to the request for comment by the Federal Reserve Board ("FRB") regarding the FRB's Principles for Climate-Related Financial Risk Management for Large Financial Institutions ("Principles"). The Principles provide a high-level framework for the safe and sound management of exposures to climate-related financial risks for large banks with over \$100 billion in assets. The FRB wants to implement these principles in order "to support financial institutions' efforts to incorporate climate-related financial risks into financial institutions' risk management frameworks in a manner consistent with safe and sound practices." [Principles at 75267-68]

The Principles outline two primary climate-related risks: physical risks and transition risks. According to the FRB,

Physical risks refer to the harm to people and property arising from acute, climate-related events, such as hurricanes, wildfires, floods, and heatwaves, and chronic shifts in climate, including higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification. Transition risks refer to stresses to certain institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes that would be part of a transition to a lower carbon economy. [Principles at 75267]

IBC has provided general comments and comments to the specific requests as noted below.

General Comments

The FRB and other federal regulators should be careful not to conflate “climate change” and climate-related risk. Any implementation of the principles or other related regulatory requirements needs to clearly define “climate-related risk.” Many articles and studies on climate-related risk focus on any number of future timelines and speculate on widely differing scenarios about how “climate change” may affect climate-related risk. Using these two terms coextensively is a mistake. The existence, extent, and effects of “climate change” remain the subject of a continuing debate, data collection and evaluation. Climate science is in its infancy. IBC does not dispute that wildfires, hurricanes, and other destructive weather events may be leading to increased climate-related risks. However, it is important for the FRB to be clear and accurate with its terminology in this space. This is especially important in order for insured institutions to understand exactly what the FRB’s goals are. Is the FRB, in its opinion, primarily concerned with addressing “climate change” or the threat of climate-related risk related to insured banks’ stability? These are two vastly different issues that would require significantly different plans and implementations, to say nothing of the fact that the FRB as a *financial* regulator, generally should not be engaging in environmental policymaking.

The FRB has a solution in search of a problem. Existing FRB (and other federal bank regulators’) rules and guidance already provide a comprehensive risk management and safety and soundness framework for insured banks. The risks the FRB notes in the Statement are not fundamentally novel or unique and the risks are already embedded and considered in decision making in existing risk management framework’s for insured banks. Regarding physical risk, hurricane alley already exists. Flood zones already exist. Tornado zones already exist. Regarding transition risk, automobiles and the internet were invented and categorically changed our lives and the financial system of this country. Historically, banks have taken these realities into consideration in all of their activities, from consumer lending to merchant banking investments. It would be criminal ineptitude if the largest bank lenders to fossil fuel companies did not consider the changing economy and rise of renewable energy as a challenge to such markets as a matter of course. The FRB seems to believe climate-related risk is an ephemeral threat that is otherwise not on the radar of insured banks. IBC is confident this is far from the truth. Climate-related risks are merely another case of changing times requiring a re-evaluation of the market landscape at both a micro and macro level, a process that banks have engaged in since the dawn of the modern financial system. The threat of environmental risks is not new, it is merely changing. Like all geographic changes, banks will learn to adapt or will face the consequences, like every other business. Did the FRB step in with highly burdensome principles and guidelines when the internet threatened to throw our economy into upheaval? Did the FRB step in when horse and buggy businesses faced obsolescence from automobile manufacturers? Or did the FRB leave it to the banks’ discretion in considering these economic realities when engaging with those businesses and markets? This is no different than traditional oil and gas companies facing increased uncertainty due to competing renewable alternatives. Unless the FRB thinks these risks

fundamentally endanger the financial stability of the United States (and provides adequate evidence of such), it should not attempt to strong-arm a climate agenda onto insured depository institutions.

Banks are well-practiced in adapting to and managing changes in consumer market preferences and the commercial environment. Climate-related financial risks are already naturally embedded into this risk assessment process through the dynamic market, economic, and counterparty data that are the backbone of robust risk management. As the policy goals, definitions, and methodologies behind climate-related financial risk identification evolve, banks of all sizes will continue to apply traditional credit and financial risk tolerances and parameters to their balance sheets to manage their risks and support the customers and communities they serve. The heavy hand of regulators is not needed to ensure adequate consideration by insured banks.

Banks, like all other businesses in this country, will begin to factor in additional climate considerations throughout their activities as applicable. These principles should not be foisted upon banks in an attempt to create an artificial response instead of allowing the response to grow and be addressed naturally. The free market should be left to address any climate-related risks and the changing economy, and stakeholders should be left to adjust their policies and practices over time to adapt to these changes. Time will also reveal through innovation new ways to adapt to the changes and any challenges.

IBC also urges the FRB to work in close conjunction with the other banking and financial agencies and international standard setting bodies to address climate-related risk, including closing data gaps and applying a consistent set of definitions, assumptions and methodologies. Notably, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Securities Exchange Commission have all recently published proposed guidance and new rules related to climate risk. The FRB should work with these and other federal regulators to ensure that any climate risk guidance and rules are conformed and harmonized between the various regulatory frameworks that apply to insured banks. This is especially true of the National Credit Union Administration, as banks should not (again) be subject to onerous regulatory obligations that their tax-advantaged credit union counterparts are not. Climate-related risk should not be another area in which banks face a huge disadvantage compared to credit unions, primarily driven by regulatory malpractice.

Additionally, the Principles single out climate-related risk from other risks for unnecessary special treatment. Insured banks no longer may simply treat climate-related risk as they would any other risk. Instead, the Principles would require banks to specifically focus on climate-related risk in a variety of ways. For instance,

1. Bank Boards of Directors must research and communicate climate-related risks and must specially assign responsibilities for them throughout the organization, and such risks and activities must be reported by bank management to the board. [Statement at 75269]

2. Climate-related risk is singled out for assessment with regard to “stakeholders, including low-to-moderate income and other disadvantaged households and communities.” [Statement at 75269]
3. Banks must “incorporate climate-related financial risks into [their] risk management system, including internal controls and internal audit,” regardless of whether those risks would qualify for control or audit coverage under the procedures that the banks have reasonably adopted for other sorts of risk. [Statement at 75269]
4. Bank management must “develop and implement climate-related scenario analysis frameworks” for climate-related risks but not for other risks. [Statement at 75270]
5. Banks are to “consider climate-related financial risks as part of the underwriting and ongoing monitoring of portfolios.” [Statement at 75270]

Singling-out climate-related risk for these additional and heightened analyses and obligations is unjustifiable. Climate-related risks do not pose greater risk than, for example, technological disruption, economic downturns, domestic political changes, foreign conflicts, civic unrest, changing consumer preference, and public health crises. IBC is especially concerned that federal regulators are choosing to focus on issues that are not critically important to financial institutions, while ignoring problems that fundamentally challenge the continued safety and soundness of regulated depository institutions. For example, changes in consumer protection regulations, financial services technology, and the Uniform Commercial Code have greatly increased the risk of fraud and unauthorized transactions, and the potential liability of financial institutions related to those risks. Instead of climate-related risk, financial institutions and their customers would be much better served if regulators could focus on and address the increased fraud risks and related liabilities. Even if climate-related risk is one of the most important risks for certain institutions, that is not true for all insured banks, let alone the vast majority of those banks and especially not to community banks. Banks would be encouraged, potentially required, to exclude entire geographies and markets that are implicated in climate-related risks. By singling out climate-related risk for special attention and treatment, the principles would prompt banks to deny financial services and credit, or offer such on worse terms, to consumers and businesses that might be affected by climate-related risk. This would be de-risking on steroids. This includes the entirety of the traditional energy and agricultural sectors, other industries that are carbon-intensive, or consume large amounts of water, energy, and other resources or produce, supply, or consume fertilizer and chemicals, or generate waste, as well as others that may be alleged to be at risk from possible changes in law or public opinion regarding climate-related risk. There would be no clearer example of the government picking and choosing winners and losers in the economy writ large. This is patently unacceptable. Banks would potentially be forced to consider whether loan applicants would be viewed favorably by “green activists” or are “green enough.” Banks may interpret the principles to require that they lend only to businesses that make certain “green commitments” (e.g. net-zero emissions by 2030, etc.). Businesses that are accused of or perceived as harming the climate or not being “green” enough may find it hard to obtain credit or reasonable loan terms. Banks may

even refuse to provide standard transactional and deposit services to businesses that are out of favor with climate activists.

Furthermore, IBC fundamentally objects to the FRB's (and other federal bank regulators') attempts to turn bankers into climate scientists, geologists, and meteorologists. The Principles state that:

Sound climate-related financial risk management depends on the availability of timely, accurate, consistent, complete, and relevant data. Management should incorporate climate-related financial risk information into the financial institution's internal reporting, monitoring, and escalation processes to facilitate timely and sound decision-making across the financial institution. Effective risk data aggregation and reporting capabilities allow management to capture and report material and emerging climate-related financial risk exposures, segmented or stratified by physical and transition risks, based upon the complexity and types of exposures. Data, risk measurement, modeling methodologies, and reporting continue to evolve at a rapid pace; management should monitor these developments and incorporate them into the institution's climate-related financial risk management as warranted. [Principles at 75270]

Not only are banks expected to be savvy to and wholly proficient in financial risk generally, but now the FRB expects them to digest and lead the entire field of climate science and climate-related risk, a field which even scientific experts cannot agree upon. Given the breadth of the Principles, the FRB would seem to be placing an unfunded mandate of fixing and/or maintaining earth's climate on banks via picking and choosing what individuals, entities, and projects get access to banking and financial services, including loans.

Finally, IBC notes that climate-related risks and impacts are actually not all detrimental to banks and can actually increase the health and stability of a bank's operations. In fact, a study published by the FRB found that weather disasters have not, in fact, damaged banks' bottom lines in any material way, and concluded that weather disasters are not likely to be a material source of bank instability, regardless of the size of the bank.¹ The FRB found that, between 1995 and 2018, increased lending by banks heavily concentrated in geographic areas affected by natural disasters and major weather events actually increased the banks' profitability and only caused modest increases in loan-loss

¹ See "How Bad Are Weather Disasters for Banks?" available at (https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr990.pdf); and "How Bad Are Weather Disasters for Banks? Not Very, Study Finds," available at https://www.newsdesk.lexisnexis.com/click/?p=aHR0cHM6Ly93d3cubmV3c2Rlc2subGV4aXNuZXhpcy5jb20vYXJ0aWNsZS80NzQ0MjE5OTkzMy5odG1sP2hsaD02NWZINTdkYyZmaWQ9MTI1MDE0NCZjaWQ9TVRBMO9ESTQmdWlkPU1UTXdNVGd6&a=47442199933&f=UHJpbmQ&s=YWxlcuQ&u=am1leWVyQGR5a2VtYS5jb20&cn=RHlrZW1hIEduc3NidHQgUExMQw&ci=107828&i=335&si=72083&fmi=654543496&e=QW1lcmJlYW4gQmFua2Vy&d=130183&t=3&h=1&mbc=Q1QzL2E9NDc0NDIxOTk5MzMmcD0xNGUmdj0xJnM9MSZobGg9NjVmZTU3ZGMmZmlkPTEyNTAxNDQmeD1RMFd6eDILbldhWFZXLTRwVW96NVI3JnUxPU5EJnUyPXVwLXVybjp1c2VyOIBBNTUzNjg4NQ&fi=1250144&ai=226734&wa=1&ac=226734_1649246884000&ck=a91f070fdb67f2652ac5bd1e6800fead

rates. After large weather disasters, both consumers and businesses may need credit to rebuild and repair. Earnings on new loans related to these destructive events can offset losses on prior loans and ultimately strengthen a bank's balance sheet, to say nothing of the good these new loans do for a community's re-building efforts.

Specific Requests for Comment

Question 1: In what ways, if any, could the draft principles be revised to better address challenges a financial institution may face in managing climate-related financial risks?

IBC Comment: As noted elsewhere herein, banks are already incorporating climate risk in their risk assessment and management frameworks. As they have done since our modern financial system was created, banks are adapting to the changing economy and geographic realities without a mandate from regulators. Markets change. Economies change. Land use changes. Climate-related risks are not a uniquely new, insurmountable hurdle for banks to address without the overbearing hand of regulators directing the way. Perhaps there is no one "right" way forward to address climate risks. In fact, there certainly is not, especially when insured banks come in so many different sizes, locations, and specialties. The FRB should strive to provide guidance that is flexible and broadly adaptable by banks of all types. Risk assessment and management is not broken, so there is nothing to fix. Banks, as always, are constantly adapting based on new market realities and changes without the need for regulatory management.

One factor referenced several times in the Principles, but not elaborated on in any meaningful way, is the consideration of time horizons in analyzing climate-related risk. Insured banks are highly-regulated financial institutions that are key providers of liquidity within an economy that must support individuals, companies, and communities in the immediate-, short-, intermediate-, and long-terms, often in the context of financing economic transition and avoiding the harm that will come to communities if financing of businesses and industries essential to local economies is abruptly or unnecessarily curtailed. A careful balance must be achieved that recognizes the potential effects of climate-related risk, but does not trigger actual transition risks harmful to the economy. Some risks are considered in the short to medium term (1-3 years), such as reputation, extreme weather, and public policy risks. Other risks are considered over a longer time horizon, such as business, market sector, and geographic concentrations, demographic changes, operational resiliency, and geopolitical trends. Climate-related credit risks should be considered on a time horizon commensurate with the nature of the underwriting, transaction, and collateral. Time horizons for climate-related risks should generally be tied to the underlying transaction. For example, for short-duration loans and other instruments, the appropriate time horizon may be current exposure and the exposure at 1 or 2 years out. For mortgage-related assets, the 7- and 10-year time horizons are common points of analysis and projection, while certain real estate transactions tend to look at 10- to 30-year time horizons.

But defining and quantifying the impacts of climate-related risks on traditional bank risks is a relatively new and complex process, with the assumptions backing the analyses dependent on a vast number of policy choices and outcomes, over timeframes that extend far beyond those used to assess traditional banking risks. Climate-related risks are inherently tied to government action and policy, which is simply unpredictable on a macro, long-term timeline. Will combustion engines eventually be banned? Will sweeping changes to off-shore drilling rights and permits be enacted in the next five years? It is impossible to know, but comfortingly, it has always been that way. Banks have learned to assess risk in an ever-changing American economy. To the extent the FRB is set on implementing the Principles, it should make clear what time horizons would be applicable to the underlying transactions and should acknowledge the complicated and dependent nature of such time horizons as applied to climate risk.

Additionally, the FRB notes the “potentially disproportionate impact [of the Principles] on the financially vulnerable, including low to moderate-income (“LMI”) and other disadvantaged households and communities,” and cites an FRB study that, like myriad others, supports the finding that LMI and other disadvantaged households and communities are and will continue to be disproportionately affected by both climate-related risk and the related response and actions to address climate-related risk. [Principles at 75268] The Principles will absolutely do more consumer harm than good. In fact, it is difficult to see how both consumers and small businesses will not be harmed if the Principles are adopted. For example, how are banks to provide sufficient access to credit and banking services to rural and poor communities in “climate-affected” areas? How can banks provide affordable consumer and small business credit in areas prone to climate-related risk? How can banks provide affordable small business credit to small businesses that are not “green enough”? Areas prone to fire and flooding are already populated largely by poor and middle-class consumers, as are areas of higher pollution and those in close proximity to super-fund sites.² Are banks no longer encouraged to engage with customers in these areas? As certain areas become more prone to fire, tornado, hurricanes, and flooding, are banks to simply ignore the needs of those communities? How are banks supposed to meet their Community Reinvestment Act requirements if they cannot engage with these populations in a fulsome manner? The Principles will have a negative impact on persistently impoverished areas, areas of minority populations, and LMI census tracts. Simply put, the FRB’s principles would create a “green-lining” problem where institutions may refuse to lend to and service consumers in climate-affected areas. This could be the new redlining of the 21st century. This is to say nothing of the potential negative financial impacts these individuals will face if banks are restricted, or even prohibited from, lending to certain businesses and industries due to perceived climate-related risk. These individuals may face job loss or

² See, EPA, “Climate Change and Social Vulnerability in the United States,” September 2021; available at https://www.epa.gov/system/files/documents/2021-09/climate-vulnerability_september-2021_508.pdf

decreased salaries, in addition to a further erosion of their communities as businesses move to find more hospitable geographic markets.

The FRB needs to consider how it will implement climate risk guidance and requirements in a way that banks are not punished for making loans in climate risk-implicated areas, on one hand, and also not punished for not lending in majority-minority and LMI tracts because of climate-related risks on the other hand. If climate risk obligations are not implemented thoughtfully and carefully, banks will face a Catch-22 no-win scenario regarding their activities in areas facing the most climate-related risk.

Question 2: Are there areas where the draft principles should be more or less specific given the current data availability and understanding of climate-related financial risks? What other aspects of climate-related financial risk management, if any, should the Board consider?

IBC Comment: As always, clear and concise guidance from regulators is necessary to enable banks to meet regulator expectations and provide stability to the federal regulatory framework. Banks want to comply with regulatory expectations, but it is nigh impossible if there is not sufficient guidance and cooperation from regulators regarding their expectations. Especially given the nascent stage of climate science and climate-related risk assessment, comprehensive *and flexible* regulatory guidance will be necessary if the FRB chooses to impose climate-related risk obligations on insured banks.

More specific and/or future guidance will be absolutely necessary as the Principles as they currently exist are esoteric to the point of confusion, and do not offer any concrete methodologies for how a bank, let alone a small or mid-sized institution, can even begin to start addressing the issues involved. More specific and/or future guidance will need to ensure that bankers do not require a climate science degree to understand and implement the Principles. It is critical that the FRB seek frequent public input from banks of all sizes to ensure supervisory goals and expectations align with current capabilities, are properly calibrated to the risks, and regulations do not penalize bank customers or the communities banks support.

Banks of all sizes must identify, monitor, and manage their risks. IBC highly recommends that any forthcoming regulation will be tailored to reflect differences in banks' circumstances such as complexity of operations and business models. Banks of differing sizes and complexity are engaged in different combinations of activities, which in turn present a wide variety of risk profiles. This is also the case with climate-related financial risks, with the added challenge of significant uncertainty around definitions, data, and the capacity to build necessary systems and expertise, as discussed herein. Many of the largest institutions are devoting significant resources to better understand how to assess and integrate climate-related financial risks, while many smaller institutions are still trying to determine if they have exposure based on current models and definitions, and if so, what it may mean for their institution, their customers and their communities. Additionally,

smaller institutions rely on third parties for data, analysis, and reporting, so they will need additional time to quantify and assess their climate-related financial risks. As argued herein, IBC asks that the FRB not make the Principles applicable to small and mid-sized institutions until climate-related financial risk is more precisely identified and understood, the methodologies have evolved, and the FRB can provide robust guidance and requirements. Future supervisory expectations or further regulation will need to be calibrated for smaller institutions, mitigating any negative impact on their communities.

Given the current state of climate-related risk and analysis data, any climate-related risk principles or guidance will almost certainly only benefit the consultants that banks will be required to engage and rely on, as bankers are not climate scientists. Many of the largest banks are currently conducting climate-specific qualitative assessments, developing internal models, and incorporating forward-looking, climate-related considerations into strategy and new business assessment. As a practical matter, this nascent stage of climate-related risk assessment means that banks are in the earliest stages of exploring how to refine and adapt their management of climate-related financial risks. For example, there is an absence of robust market data related to climate-related financial risk, a lack of standardized definitions surrounding what is meant by climate-related risk, and limited information about how climate-related risk interacts with traditional financial risks. The FRB should proceed with care, and avoid being “too early” on this matter, and implementing a framework that will stagnate and become obsolete in a short time.

IBC believes that regulators should focus on ensuring that the largest, systemically important banks are progressing in their climate-related risk assessment capabilities and conducting internal climate-related risk analysis calibrated to the risks that are material to their individual business model. Attaching regulatory consequences to climate-related risk exposures at this time would be premature. Additional regulation based on today’s climate science and risk assessment capabilities could potentially result in a misallocation of resources.

Finally, one of the biggest challenges community banks would face in complying with and implementing the Principles is anticipating, measuring, forecasting, and analyzing unknown and unquantifiable risks. The Principles are incredibly broad and lack specificity to help small and mid-sized banks and examiners identify *material* climate-related financial risks that may warrant review and heightened scrutiny. As currently proposed, IBC believes the Principles do not contain sufficient protections that would ensure examiners do not get carried away in criticizing healthy banks on the basis of remote, highly speculative, or immaterial climate-related risks. The Principles also do not contain defined terms, detailed hypothetical or explanatory examples, time periods for forecasting, or even a common data set banks could use to analyze climate related financial risks. Without these limits, the Principles can broadly apply to every type of climate-related physical risk or transition risk imaginable, no matter how immaterial or

remote, and banks could therefore be subject to undue regulatory scrutiny and enforcement actions for minor and immaterial deficiencies in their risk management programs. The resources and costs that would be necessary to comply with the Principles would quickly overwhelm a community bank's limited staff or force a community bank to de-risk entire industries or loan portfolios even if the bank had no true safety and soundness weaknesses.

Question 3: What challenges, if any, could financial institutions face in incorporating these draft principles into their risk management frameworks?

IBC Comment: To start with, the FRB should make clear how the Principles should be incorporated into risk management systems. The FRB already has ample risk management regulations and guidance, as previously noted. To the extent it feels the need to include the Principles in that framework, it should carry the laboring oar in order to do so. Banks already consider climate issues, such as increased wildfire and flood risks, when evaluating transactions as part of their risk management. If the FRB wants to include these principles, or parts of them, formally into its risk management requirements and guidance, it should do so itself.

Furthermore, IBC asks that, in addition to exempting institutions with less than \$100 billion in assets, the FRB exempt minority-owned depository institutions and community development institutions from the Principles, regardless of assets. These institutions largely serve rural and underserved communities and would be completely hamstrung if additional restrictions on their ability to lend or provide services to these populations were implemented. Defining and quantifying climate-related impacts on traditional bank risks is a relatively new and complex process. Given all of the uncertainties, and to accommodate what will likely be significant changes to the practice of climate-related financial risk identification, IBC urges the FRB to continue to take a principles-based approach that is flexible and iterative, and that allows banks to assess the risks they identify as the most material to their unique circumstances. IBC requests that the FRB not expand the scope of the Principles to these banks until more robust data is available, and the climate-related financial risks and opportunities are better understood.

As a general note, the complexity of what is being proposed and asked of insured banks regarding measuring, monitoring, and controlling climate-related risks can only be met by the largest financial institutions. The level of difficulty of expertise, to say nothing of the time and costs, required is simply outside the capabilities of small and mid-sized community banks. This will no doubt be a boon for "climate consultants" who have already started aggressively marketing their services to financial institutions. Notably, when the FDIC published its climate-risk Principles for comment, it received at least one letter from such a climate science consultant, which unsurprisingly included a full-throated endorsement of the FDIC's draft principles and went as far to ask that the FDIC "explicitly require financial institutions to research, outline, and detail the correlation between climate risks and the financial risks to which they are exposed, and provide transparency into

the data utilized to validate any assumptions that underlie their models.”³ Bankers should not need a doctorate-level understanding of climate science in order to do their jobs. Instead of focusing on creating jobs and helping local businesses, these Principles will simply spur bank “investment” in consulting firms in order to meet these new requirements. It must also be pointed out there are many experts that do not believe the science is settled when it comes to climate change. In fact, the ability to forecast or model climate change is believed to be highly suspect. That is clearly set out in “Unsettled,” a book authored by Steven E. Koonin, a climate expert.

Finally, IBC notes the strong recent pushback on prioritizing climate change and other Environmental, Social, and Governance (“ESG”) considerations over shareholders’ and clients’ financial interests. Just this month, 21 state attorneys general issued a warning to at least two firms that provide proxy voting advice that the firms may be breaking the law by unduly considering ESG factors over other economic principles and factors in providing such proxy voting advice.⁴ In particular, the attorneys general stated that the firms appeared to be improperly influenced by “net zero” emissions goals and other climate commitments, which influence and prioritization may violate statutory and contractual obligations. These actions, in the opinion of the attorneys general, are tantamount to abandoning the fiduciary duties to the firms’ clients. The underlying issue is ultimately whether the proxy recommendations are based on the actual financial interests of the investment beneficiaries or (inappropriate and potentially illegal) social goals. The specific laws at issue include the Securities Exchange Act, which requires proxy advisor recommendations to be free from false or misleading material information, and state laws prohibiting unfair or deceptive trade practices by investment advisors. Clearly, many states believe that ESG factors, including climate-related issues, are simply not based enough in fact and science to warrant consideration (let alone prioritization) in investment and financial advice. IBC believes the FRB should be incredibly cautious in promoting a focus on climate-related risk, especially if that would conflict with state-based advice and obligations.

Thank you for the opportunity to share IBC’s view.

INTERNATIONAL BANCSHARES CORPORATION

A handwritten signature in blue ink, appearing to read 'DENIXON', is written over the company name.

Dennis E. Nixon, President and CEO

³ Comment Letter of Intercontinental Exchange, Inc., available at <https://www.fdic.gov/resources/regulations/federal-register-publications/2022/2022-statement-principles-climate-related-financial-risk-management-3064-za32-c-005.pdf>

⁴ Letter available at <https://business.cch.com/srd/2023-01-17-Utah-Texas-Letter-to-Glass-Lewis-ISS.pdf>